

ABSTRACT

Bank profitability is one of the key inputs for macroprudential surveillance. Although we may find extensive empirical literature analyzing banks' performance, there is to our knowledge no study examining whole banking sectors. This thesis contributes to the existing research twofold. Firstly, we develop a banks' income model that considers banking sectors as a whole, using a sample of 40 countries in the period of 1997 to 2011. Secondly, we implement this model to two different restrictions of our data sample testing the model's applicability.

We explore three hypotheses. Firstly, we test whether macroeconomic, industry-specific and bank-specific determinants are significant drivers of bank profitability. The final banks' income model is estimated via a dynamic GMM specification, consisting of proxies for the level of economic development, capitalization, interest-earning activities, credit quality and two lags of profitability capturing its persistency. The hypothesis is rejected since we do not find evidence of a significant industry-specific indicator. The second and third hypotheses restrict our sample to a time period before the financial crisis and banking sectors comprising only commercial banks, respectively. We conclude that the model is robust with regards to the chosen time period but provides ambiguous results if applied to sectors comprising solely commercial banks.

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